

Recording Encumbrances

An *encumbrance* is a commitment in the form of a purchase order or offer to buy goods or services. Encumbrances are *anticipated expenditures*. The encumbrance account is one of the budgetary accounts, and, as such, it is used to help prevent overspending.

Typically, the steps in the “life” of a purchase are the following:

1. Issuance of a purchase requisition. The purchase requisition is the internal document which authorizes the purchasing agent to issue a purchase order for the desired goods or services. Typically, the purchase requisition bears the approval of a budget manager or administrator. It becomes the basis for the generation of a purchase order, a legal contract with the vendor for goods or services. There is *no General Ledger (or subsidiary ledger) entry* made to record this step unless a preencumbrance system is used.
2. Issuance of a purchase order. With a purchase order, the LEA orders the goods or services and agrees to pay for them. When the purchase order is issued, the *Encumbrances account (9830) is debited*, and the *Reserve for Encumbrances account (9720) is credited*.
3. Receipt of the goods or services with the accompanying invoice. Generally, at this point, no entry is made.
4. Payment of the invoice. The encumbrance entry is reversed, the expenditure account is debited, and the cash account is credited.

An *appropriation* is an amount authorized by the governing board of an LEA to be used for a specific purpose. Appropriations represent estimated or budgeted expenditures. If the LEA records encumbrances, information will be available to determine the amount of available appropriations at any given time by comparing the expenditures plus commitments (encumbrances) to date with the amount of the appropriations.

If the purchase orders are drawn in order to confirm orders for all materials and services to be purchased by the LEA, they may be used for encumbrance purposes. A sample purchase order is shown on the next page.

Purchase Order No. 2

To: Student Supply Company

Date: July 1, 2002

Ordered by

School _____

From: _____

School District

Appropriation

Ledger Account 4300

Deliver to: 100 Main Street

Quantity	Unit	Item	Unit price	Amount
1,000	Ream	Newsprint	\$0.60	\$600.00
100	Gross	#2 school pencils	3.00	300.00
300	Box	Crayons	0.30	90.00
				\$990.00

Encumbering purchase orders. The methods of encumbering purchase orders will vary depending on the financial software used by the LEA. Generally, the entry of a purchase order into the software will automatically enter an encumbrance in the Appropriation Ledger and the General Ledger. When a record of the individual purchase orders contained in a summary recording is desired, a Purchase Order Encumbrance Summary, such as the one following, might be used.

Purchase Order Encumbrance Summary**For July 2002**

Vendor's name	Appropriation account number	Date	Purchase order number	Amount of encumbrance
Justrite Roofing Company	5600	10	1	\$ 805.63
Student Supply Company	4300	1	2	990.00
L.A. Detergent Company	4300	26	3	50.00
Total				\$1,845.63

The following journal entry records the encumbrance information contained in the purchase order shown above:

J7

Date	Account	Debit	Credit
7-1-02	9830 Encumbrances	\$1,845.63	
	9720 Reserve for Encumbrances		\$1,845.63
<i>Account Appropriation Ledger</i>			
4300	Materials and Supplies	\$ 1,040.00	
5600	Rentals, Leases, Repairs, and Noncapitalized Improvements	805.63	
		<u>\$1,845.63</u>	
To record purchase order encumbrances for July 2002			

The posting of the instructional supplies item to the account in the subsidiary Appropriation Ledger is illustrated below:

Appropriation Ledger

Account 4300

Materials and Supplies

<i>Date</i>	<i>Refer- ence</i>	<i>Appropriation</i>	<i>Encumbrances</i>	<i>Encumbered to Date</i>	<i>Expended to Date</i>	<i>Unencum- bered Balance</i>
7-1-02	J7	\$2,500.00	\$1,040.00	\$1,040.00		\$1,460.00

Encumbering salaries and benefits. At the beginning of each year, the total annual salaries and benefits of personnel employed for that year may be determined for purposes of encumbering salaries and benefits. Similarly, the total monthly salaries should be disencumbered as salaries and benefits are paid. Salaries and benefits should be adjusted for personnel and rate changes. The encumbrance should be reversed proportionately.

The salary encumbrance summary may differ in detail depending on the types of accounting software used by the LEA. Basic requirements are a complete accounting for all personnel having salaries to be encumbered, a grouping of these salaries to provide monthly and annual totals by budget classifications, and provisions for recording changes in personnel and salaries.

The Certificated Payroll Encumbrance Summary illustrates the adjustment in encumbrance totals that must be recognized when personnel changes occur.

The journal entries to record the salary encumbrance transactions shown in the Certificated Payroll Encumbrance Summary are listed as follows:

J12

<i>Date</i>	<i>Account</i>	<i>Debit</i>	<i>Credit</i>
7-1-02	9830 Encumbrances	\$429,600.00	
	9720 Reserve for Encumbrances		\$429,600.00
<i>Account Appropriation Ledger</i>			
1100	Teachers' Salaries		\$360,000.00
1200	Certificated Pupil Support Salaries		24,000.00
1300	Certificated Supervisors' and Administrators' Salaries		24,000.00
1900	Other Certificated Salaries		21,600.00
			<u>\$429,600.00</u>
	To record salary encumbrances for certificated staff employed as of 7-1-02		

J13

<i>Date</i>	<i>Account</i>		<i>Debit</i>	<i>Credit</i>
7-15-02	9720	Reserve for Encumbrances	\$4,200.00	
	9830	Encumbrances		\$4,200.00
<i>Account Appropriation Ledger</i>				
1100		Teachers' Salaries	\$4,200.00	
To cancel 12 months' salary encumbrance for Betty Bennett, resigned on 7-15-02				

J14

<i>Date</i>	<i>Account</i>		<i>Debit</i>	<i>Credit</i>
7-20-02	9830	Encumbrances	\$3,400.00	
	9720	Reserve for Encumbrances		\$3,400.00
<i>Account Appropriation Ledger</i>				
1100		Teachers' Salaries	\$3,400.00	
To establish salary encumbrance for 12 months' payment to Ted Thompson, employed on 7-20-02				

The posting of the preceding entries to the General Ledger is as follows:

Account 9830**Encumbrances**

<i>Date</i>	<i>Reference</i>	<i>Debit</i>	<i>Credit</i>	<i>Balance</i>	<i>Dr/Cr</i>
7-1-02	J7	\$ 1,845.63		\$ 1,845.63	Dr
7-1-02	J12	429,600.00		431,445.63	Dr
7-15-02	J13		\$4,200.00	427,245.63	Dr
7-20-02	J14	3,400.00		430,645.63	Dr

Account 9720**Reserve for Encumbrances**

<i>Date</i>	<i>Reference</i>	<i>Debit</i>	<i>Credit</i>	<i>Balance</i>	<i>Dr/Cr</i>
7-1-02	J7		\$ 1,845.63	\$ 1,845.63	Cr
7-1-02	J12		429,600.00	431,445.63	Cr
7-15-02	J13	\$4,200.00		427,245.63	Cr
7-20-02	J14		3,400.00	430,645.63	Cr

The posting of the Teachers' Salaries account to the subsidiary Appropriation Ledger is illustrated as follows:

Appropriation Ledger

Account 1100

Teachers' Salaries

<i>Date</i>	<i>Refer- ence</i>	<i>Appropriation</i>	<i>Encumbrances</i>	<i>Encumbered to Date</i>	<i>Expended</i>	<i>Expended to Date</i>	<i>Unencum- bered Balance</i>
7-1-02	J12	\$360,000.00	\$360,000.00	\$360,000.00			\$ 0.00
7-15-02	J13	360,000.00	-4,200.00	355,800.00			4,200.00
7-20-02	J14	360,000.00	3,400.00	359,200.00			800.00

In the foregoing illustration it has been assumed that the changes in personnel were made prior to payment of any payroll in that year. It is important, however, that encumbrances be reduced by the unpaid installments of the annual salaries of personnel leaving the payroll and increased for the unpaid installments of personnel being added to the payroll.

Recording Encumbrance Adjustments—Other Than Salaries

The amount of encumbrance to be adjusted or cancelled when vendor payments or other expenditures are recorded is the amount originally encumbered for the specific items. Thus, if a purchase order was originally encumbered for \$100, but the actual payment was \$99.50, the original \$100 encumbrance is cancelled. Partial payments on an order are liquidated in the same amount as originally encumbered for items being paid, and the balance of the encumbrance is cancelled when the final payment is made.

Depending on the encumbrance method being used, the adjustments or liquidations are posted either directly from the purchase order or from a Purchase Order Liquidation Summary listing the purchase orders being paid.

With some systems it is more practical to cancel all encumbrances and to reencumber those that are outstanding after the paid items have been deleted. If an encumbrance amount is cancelled or changed because items ordered are unavailable or prices are changed, the adjustment is recorded in the same manner as that for routine adjustments or cancellations following payments.

Preparing the journal entry. The journal entry to record encumbrance adjustments shows the General Ledger and subsidiary ledger accounts and the amounts for each, as shown in the following example:

J25

<i>Date</i>	<i>Account</i>		<i>Debit</i>	<i>Credit</i>
8-31-02	9720	Reserve for Encumbrances	\$6,245.00	
	9830	Encumbrances		\$6,245.00
<i>Account Appropriation Ledger</i>				
4100		Approved Textbooks and Core Curricula Materials ..	\$ 350.00	
4300		Materials and Supplies	540.00	
5500		Operations and Housekeeping Services	1,300.00	
6200		Buildings and Improvement of Buildings	2,500.00	
			<u>\$4,690.00</u>	
To record encumbrance cancellations (other than salaries) for the month of August				

California School District
Warrant Register Number 1

Date: July 31, 2002

Warrant Number	Vendor	Expenditure Classification	Amount
1.	Aldrich & Aldrich	4300	\$ 48.06
2.	American Book Co.	4100	350.00
3.	Best Music Company	4300	210.00
4.	E.P. Finigan Company	6200	2,500.00
5.	Office Supply Company	4300	65.00
6.	Pacific Gas & Electric Company	5500	700.00
7.	Pacific Bell	5500	600.00
8.	Taylor's School Supplies	4300	216.94
9.	U.S. Treasury (Abatement of Revenue)	8110	500.00
Total			<u>\$5,190.00</u>

Expenditure Classification Summary

4100	Approved Textbooks and Core Curricula Materials	\$ 350.00	
4300	Materials and Supplies	540.00	
5500	Operations and Housekeeping Services	1,300.00	
6200	Buildings and Improvement of Buildings	<u>2,500.00</u>	
			\$4,690.00

Revenue Classification Summary

8110	Maintenance and Operations (Public Law 81-874) abatement.....	<u>\$ 500.00</u>	500.00
Total			<u>\$5,190.00</u>

This journal entry for encumbrance cancellations is posted to the General Ledger in the usual manner.

Posting to the Appropriation Ledger. Entries in the subsidiary Appropriation Ledger are made in the “Encumbrances” column, as shown in the following examples:

Appropriation Ledger

Account 4300

Materials and Supplies

Date	Refer- ence	Appropriation	Encumbrances	Encumbered to Date	Expended	Expended to Date	Unencum- bered Balance
7-1-02	J3	\$2,500.00					\$2,500.00
7-1-02	J7	2,500.00	\$1,040.00	\$1,040.00			1,460.00
8-1-02	J19	2,500.00	200.00	1,240.00			1,260.00
8-31-02	J25	2,500.00	-540.00	700.00			1,800.00

Recording Encumbrance Adjustments—Salaries

The amount of encumbrance to be adjusted or cancelled when salary payments are made is the same amount that is being paid, provided such amounts have been encumbered. This procedure will leave the proper balance of encumbrance for each succeeding month if there is no change in rate of pay.

Further adjustment is necessary for changes of contracts, terminations, and the like. It is generally preferable to cancel the exact amount of the payroll posting and to pick up additional adjustments in a separate posting from a list of changes. For example, a payroll expenditure of \$40,275 represents the regular monthly payroll for salaries encumbered for the year. However, because one employee terminated in July and received less than a full month's salary, the difference between the individual amount encumbered, \$300, and the amount paid and liquidated, \$200, represents a cancellation of \$100 to encumbrances for July in addition to the encumbrance for the rest of the year, \$3,300 (\$300 x 11 months), or a total cancellation of encumbrances in the amount of \$3,400. The person replacing this employee was paid \$50 in July and will be paid \$2,750 for the rest of the year. The additional total encumbrance is \$2,800. The net adjustment to encumbrances is a reduction of \$600.

The use of some systems makes it more practical to cancel all encumbrances for salaries at the time payroll expenditures are posted and to reencumber the adjusted amounts for the remainder of the year.

Preparing the journal entry. The journal entry to record encumbrance adjustments lists the General Ledger and subsidiary ledger accounts and the amounts for each, as shown in the following example:

J18

Date	Account	Debit	Credit
7-31-02	9720 Reserve for Encumbrances	\$40,275.00	
	9720 Reserve for Encumbrances	600.00	
	9830 Encumbrances		\$40,275.00
	9830 Encumbrances		600.00
<i>Account Appropriation Ledger</i>			
1100	Teachers' Salaries	\$32,000.00	
1200	Certificated Pupil Support Salaries	1,600.00	
1300	Certificated Supervisors' and Administrators' Salaries	2,000.00	
1900	Other Certificated Salaries	925.00	
2200	Classified Support Salaries	600.00	
2200	Classified Support Salaries	250.00	
2300	Classified Supervisors' and Administrators' Salaries	650.00	
2400	Clerical, Technical, and Office Staff Salaries	2,850.00	
		<u>\$40,875.00</u>	
To record salary encumbrance liquidations and adjustments for the month of July			

Posting to the General Ledger. The journal entry for salary encumbrance cancellations and adjustments is posted to the General Ledger in the usual manner.

Posting to the Appropriation Ledger. Entries in the subsidiary Appropriation Ledger are made in the "Encumbrances" column as in the following example:

Appropriation Ledger

Account 1100

Teachers' Salaries

Date	Refer- ence	Appropriation	Encumbrances	Encumbered to Date	Expended	Expended to Date	Unencum- bered Balance
7-1-02	J3	\$360,000.00					\$360,000.00
7-1-02	J12	360,000.00	\$360,000.00	\$360,000.00			0.00
7-15-02	J13	360,000.00	-4,200.00	355,800.00			4,200.00
7-20-02	J14	360,000.00	3,400.00	359,200.00			800.00
7-31-02	J18	360,000.00	-32,000.00	327,200.00			32,800.00

Appropriation Ledger

Account 1200

Certificated Pupil Support Salaries

<i>Date</i>	<i>Refer- ence</i>	<i>Appropriation</i>	<i>Encumbrances</i>	<i>Encumbered to Date</i>	<i>Expended to Date</i>	<i>Unencum- bered Balance</i>
7-1-02	J3	\$24,000.00				\$24,000.00
7-1-02	J12	24,000.00	\$24,000.00	\$24,000.00		0.00
7-31-02	J18	24,000.00	-1,600.00	22,400.00		1,600.00

The control account Encumbrances in the General Ledger can be proved (reconciled) by adding the totals of the "Encumbered to Date" column in each of the subsidiary Appropriation Ledger accounts.

